

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Village of Westphalia	County Clinton
Audit Date 2/28/05	Opinion Date 6/7/05	Date Accountant Report Submitted to State: 8/29/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name)

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Street Address

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City

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State

MI

ZIP

48879

Accountant Signature

Abraham & Gaffney, P.C.

Kevin M. Jones, CPA

Date

8/29/05

**Village of Westphalia
Clinton County, Michigan**

FINANCIAL STATEMENTS

February 28, 2005

Village of Westphalia
Clinton County, Michigan

February 28, 2005

VILLAGE COUNCIL AND ADMINISTRATION

Mr. Charles Schafer	President
Mr. Mark Schafer	Mayor Pro-Tem
Mr. Dave Boswell	Trustee
Mr. Stan Bauer	Trustee
Mr. Dean Kohagen	Trustee
Mr. Phil Hanses	Trustee
Mr. Nort Upson	Trustee
Ms. Sandy Smith	Clerk
Ms. Wendy Thelen	Treasurer

Village of Westphalia

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February 28, 2005

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INDEPENDENT AUDITOR'S REPORT

To the Honorable President and
Members of the Village Council
Village of Westphalia
Westphalia, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Westphalia, Michigan as of and for the year ended February 28, 2005, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Village of Westphalia's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Westphalia, Michigan as of February 28, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note A, the Village has implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, as of March 1, 2004, along with all related statements and interpretations.

The management's discussion and analysis and budgetary comparison information, as identified in the table of contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village of Westphalia's basic financial statements. The accompanying other supplementary information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

June 7, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

February 28, 2005

The following is a discussion and analysis of Village of Westphalia's (the Village's) financial performance and position, providing an overview of the activities for the year ended February 28, 2005. This analysis should be read in conjunction with the *Independent Auditors Report* and with the Village's financial statements, which follow this section. Fiscal year 2004-2005 represents the first year the Village implemented the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, as amended by GASB Statement No. 37 *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments - Omnibus* and Statement No. 38 *Certain Financial Statement Note Disclosures*. Therefore, this discussion and analysis provides few comparisons with the previous year. Future reports will include financial comparisons to the prior as required by GASB.

FINANCIAL HIGHLIGHTS

Government-wide:

- Total net assets were \$1,968,071.
- Governmental activities net assets were \$880,310.
- Business-type activities net assets were \$1,087,761.

Fund Level:

- At the close of the fiscal year, the Village's governmental funds reported a combined ending fund balance of \$367,774 with \$143,433 being designated for future capital projects.
- The General Fund realized \$70,246 more in revenues than anticipated for the fiscal year. The General Fund operations expended \$40,751 more than appropriated.
- Overall, the General Fund balance decreased by \$11,480 to \$147,017.

Capital and Long-term Debt Activities:

- The Village issued no new debt issues for the year.
- The total long-term debt at February 28, 2005, was \$19,000 which was a reduction of \$19,000 from the prior year.
- The Village remains well below its authorized legal debt limit.
- The net total addition to the capital asset schedule for the primary government was \$99,080.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Village's annual financial report. The annual financial report of the Village consists of the following components: 1) *Independent Auditors Report*; 2) *Management's Discussion and Analysis* and 3) the *Basic Financial Statements* (government-wide financial statements, fund financial statements, notes to the financial statements), *Required Supplementary Information* such as budget to actual comparisons for the General Fund and major Special Revenue Funds, and *Other Supplementary Information* including combining financial statements for all nonmajor governmental funds and other funds.

Government-wide Financial Statements (Reporting the Village as a Whole)

The set of government-wide financial statements are made up of the Statement of Net Assets and the Statement of Activities, which report information about the Village as a whole, and about its activities. Their purpose is to assist in answering the question, is the Village, in its entirety, better or worse off as a result of this fiscal year's activities? These statements, which include all non-fiduciary assets and liabilities, are reported on the *accrual basis of accounting*, similar to a private business.

MANAGEMENT'S DISCUSSION AND ANALYSIS

February 28, 2005

This means revenues are accounted for when they are *earned* and expenses are accounted for when *incurred*, regardless of when the actual cash is received or disbursed.

The Statement of Net Assets (page 1) presents all of the Village's assets and liabilities, recording the difference between the two as "net assets". Over time, increases or decreases in net assets measure whether the Village's financial position is improving or deteriorating.

The Statement of Activities (page 2) presents information showing how the Village's net assets changed during the 2004-2005 fiscal year. All changes in net assets are reported based on the period for which the underlying events giving rise to the change occurs, regardless of the timing of related cash flows. Therefore, revenue and expenses are reported in these statements for some items that will only result in cash flows in future financial periods, such as uncollected taxes and earned but unused employee annual leave.

Both statements report the following activities:

- **Governmental Activities** - Most of the Village's basic services are reported under this category. Taxes, charges for services and intergovernmental revenue primarily fund these services. Most of the Village's general government departments, law enforcement, economic development, Village improvements, street improvements, recreation activities, and other Village-wide elected official operations are reported under these activities.
- **Business-type Activities** - These activities operate like private businesses. The Village charges fees to recover the cost of the services provided. The Water System Fund and the Sewer System Fund make up the business-type activities.

As stated previously, the government-wide statements report on an *accrual* basis of accounting. However, the governmental funds report on a *modified accrual* basis. Under modified accrual accounting, revenues are recognized when they are measurable and available to pay obligations of the fiscal period; expenditures are recognized when they are due to be paid from available resources.

Because of the different basis of accounting between the fund statements (described below) and the government-wide statements, pages 5 and 8 present reconciliations between the two statement types. The following summarizes the impact of transitioning from modified accrual to full accrual accounting:

- Capital assets used in governmental activities (depreciation) are not reported on the fund financial statements of the governmental fund. Capital assets and depreciation expense are reported on the government-wide statements.
- Capital outlay spending results in capital assets on the government-wide statements, but is reported as expenditures on the fund financial statements of the governmental funds.

In addition, it should be noted that the government-wide financial statements include the net value of the Village's general capital assets such as buildings, land, vehicles, equipment, infrastructure, etc. These values are not included in the fund financial statements.

Fund Financial Statements (Reporting the Village's Major Funds)

The fund financial statements, which begin on page 3, provide information on the Village's significant (major) funds, and aggregated nonmajor funds. A fund is a fiscal and accounting entity with a self-balancing set of accounts that the Village uses to keep track of specific sources of funding and spending for a particular purpose. Traditional users of governmental financial statements will find the Fund Financial Statements presentation more familiar.

MANAGEMENT'S DISCUSSION AND ANALYSIS

February 28, 2005

The *basic financial statements* report major funds as defined by the Government Accounting Standards Board (GASB) in separate columns. Statement 34 defines a "major fund" as the General Fund, and any governmental or enterprise fund which has either total assets, total liabilities, total revenues or total expenditures/expenses that equal at least ten (10) percent of those categories for either the governmental funds or the enterprise funds and where the individual fund total also exceeds five (5) percent of those categories for governmental and enterprise funds combined. The major funds for the Village of Westphalia include the General Fund, the Major Street Fund, the Equipment Replacement Fund, the Sewer System Fund, and the Water System Fund. All other funds are classified as nonmajor funds and are reported in aggregate by the applicable fund type. The Village includes detailed information on its nonmajor funds in the other supplementary information section of this report.

The Village's funds are divided into two categories - governmental and proprietary - and use different accounting approaches:

- **Governmental Funds** - Most of the Village's basic services are reported in the governmental funds. The focus of these funds is how cash and other financial assets that can be readily converted to cash, flow in and out during the course of the fiscal year and how the balances left at year-end are available for spending on future services. Consequently, the governmental fund financial statements provide a detailed *short-term* view that helps determine whether there are more or fewer financial resources that may be expended in the near future to finance the Village's programs. Governmental funds include the *General Fund*, as well as *Special Revenue Funds* (use of fund balance is restricted).
- **Proprietary Funds** - Services for which the Village charges customers (whether outside the Village structure or a Village department) a fee are generally reported in proprietary funds. Proprietary funds use the same *accrual* basis of accounting used in the government-wide statements and by private business. The Village has one type of proprietary fund. *Enterprise funds* report activities that provide supplies and/or services to the general public. Examples are the Sewer System Fund and the Water System Fund.

Notes to the Financial Statements

The Notes to the Financial Statements provide additional information that is essential to a full understanding of the detail provided in the government-wide and fund financial statements. The Notes can be found beginning on page 12 of this report.

Required Supplementary Information

Following the Basic Financial Statements is additional Required Supplementary Information (RSI), which further explains and supports the information in the financial statements. RSI includes a budgetary comparison schedules for the General Fund and the major special revenue funds.

Other Supplementary Information

Other Supplementary Information includes combining financial statements for nonmajor governmental funds. These funds are added together, by fund type, and are presented in aggregate single columns in the appropriate basic financial statements.

Village of Westphalia

MANAGEMENT'S DISCUSSION AND ANALYSIS

February 28, 2005

FINANCIAL ANALYSIS OF THE VILLAGE AS A WHOLE

As previously stated, the Village of Westphalia's combined net assets were \$1,968,071 at the end of this year's operations. The net assets of the governmental activities were \$880,310; the business-type activities were \$1,087,761.

Net Assets as of February 28, 2005

	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total Government</u>
Current Assets	\$ 378,990	\$ 541,358	\$ 920,348
Noncurrent Assets	<u>512,536</u>	<u>566,104</u>	<u>1,078,640</u>
Total Assets	<u>\$ 891,526</u>	<u>\$ 1,107,462</u>	<u>\$ 1,998,988</u>
Current Liabilities	\$ 11,216	\$ 19,581	\$ 30,797
Noncurrent Liabilities	<u>-</u>	<u>120</u>	<u>120</u>
Total Liabilities	<u>\$ 11,216</u>	<u>\$ 19,701</u>	<u>\$ 30,917</u>
Net Assets			
Invested in Capital Assets (Net of related debt)	\$ 512,536	\$ 518,518	\$ 1,031,054
Restricted	105,811	-	105,811
Unrestricted	<u>261,963</u>	<u>569,243</u>	<u>831,206</u>
Total Net Assets	<u>\$ 880,310</u>	<u>\$ 1,087,761</u>	<u>\$ 1,968,071</u>

Village of Westphalia

MANAGEMENT'S DISCUSSION AND ANALYSIS

February 28, 2005

The following condensed financial information was derived from the government-wide Statement of Activities and reflects how the Village's net assets changed during the fiscal year:

Changes in Net Assets for the Fiscal Year Ended February 28, 2005

	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>
Revenues			
Program Revenues			
Charges for Services	\$ 134,344	\$ 92,482	\$ 226,826
Grants and Contributions	65,265	-	65,265
General Revenues			
Property Taxes	166,498	-	166,498
State Shared Revenue	71,525	-	71,525
Investment Earnings	6,908	5,160	12,068
Miscellaneous	<u>6,734</u>	<u>-</u>	<u>6,734</u>
Total Revenues	451,274	97,642	548,916
Expenses			
General Government	205,458	-	205,458
Public Safety	11,639	-	11,639
Public Works	125,193	-	125,193
Health and Welfare	6,236	-	6,236
Community and Economic Development	13,999	-	13,999
Recreation and Cultural	14,693	-	14,693
Other	9,737	-	9,737
Sewer System Operations	-	62,896	62,896
Water System Operations	<u>-</u>	<u>57,546</u>	<u>57,546</u>
Total Expenses	<u>386,955</u>	<u>120,442</u>	<u>507,397</u>
Increase (decrease) in Net Assets	64,319	(22,800)	41,519
Net Assets - Beginning (as restated)	<u>815,991</u>	<u>1,110,561</u>	<u>1,926,552</u>
Net Assets - Ending	<u>\$ 880,310</u>	<u>\$ 1,087,761</u>	<u>\$ 1,968,071</u>

Governmental Activities:

The result of 2004-2005 governmental activity was an increase of \$64,319 in net assets to \$880,310. Of the total governmental activities' net assets, \$512,536 is invested in capital assets less related debt, \$105,811 is reported as restricted, meaning these assets are legally committed for a specific purpose through statute or by another authority outside the Village government. The balance of \$261,963 is listed as unrestricted, having no legal commitment.

Revenues:

The three largest revenue categories were property taxes at 37%, charges for services at 30%, and state shared revenue at 16%. The Village levied one property tax millage for the year ended February 28, 2005, for general government operations at 8 mills, which is not assigned to any particular activity.

Village of Westphalia

MANAGEMENT'S DISCUSSION AND ANALYSIS

February 28, 2005

Expenses:

General government is the largest governmental activity, expending approximately 53% of the governmental activities total and includes the Legislative, President, Clerk, Treasurer, Assessor, Elections, and Hall and Grounds departments. Public works is the second largest activity, expending approximately 32% of the governmental activities total and includes public street maintenance and refuse collection.

Business-type Activities:

Net assets in business-type activities decreased by \$22,800 during the 2004-2005 fiscal year. Of the business-type activities' net assets, \$518,518 is invested in capital assets less related debt. The balance of \$569,243 is listed as unrestricted, having no legal commitment.

FINANCIAL ANALYSIS OF THE VILLAGE'S MAJOR AND NONMAJOR FUNDS

As the Village completed the 2004-2005 fiscal year, its governmental funds reported *combined* fund balances of \$367,774. This was a net decrease of \$79,844. The net changes are summarized in the following chart:

	<u>General Fund</u>	<u>Major Street</u>	<u>Equipment Replacement</u>	<u>Nonmajor Governmental Funds</u>
Restated Fund Balance 2/29/04	\$ 158,497	\$ 136,977	\$ 87,829	\$ 64,315
Fund Balance 2/28/05	<u>147,017</u>	<u>39,608</u>	<u>102,863</u>	<u>78,286</u>
Net Change	<u><u>\$ (11,480)</u></u>	<u><u>\$ (97,369)</u></u>	<u><u>\$ 15,034</u></u>	<u><u>\$ 13,971</u></u>

General Fund:

The General Fund is the chief operating fund of the Village. Unless otherwise required by statute, contractual agreement or Council policy, all Village revenues and expenditures are recorded in the General Fund. As of February 28, 2005, the General Fund reported a fund balance of \$147,017. This amount is a decrease of \$11,480 from the fund balance of \$158,497 reported as of February 29, 2004. The 2004-2005 original budget called for a \$39,725 use of fund balance.

General Fund Budgetary Highlights:

The Village of Westphalia's budget is a dynamic document. Although adopted in March each year, the budget is routinely amended during the course of the year to reflect changing operational demands.

Actual General Fund revenues totaled \$364,246; \$70,246 above the final amended budget. The final amended and original budgets were the same. The largest variance between actual revenues and the final amended budget was in charges for services. The Village did not amend the revenue budget for charges to other funds related to the street maintenance project that commenced during the fiscal year.

The Village's expenditure budget was increased by \$1,250 (less than 1% above the original budget) during the fiscal year. Actual Village expenditures and other financing uses for the fiscal year were \$40,751 over budget. General Fund actual expenditures and other financing uses were \$375,726 and the final budgeted amounts totaled \$334,975, which was a 12% difference.

Village of Westphalia

MANAGEMENT'S DISCUSSION AND ANALYSIS

February 28, 2005

Major Street Fund:

As of February 28, 2005, the Major Street Fund reported a fund balance of \$39,608, a decrease of \$97,369 from the prior year's restated fund balance. The total fund balance is undesignated/unreserved.

The expenditure budget was increased by \$49,500 during the fiscal year (39% above the original budget), to cover the additional cost of street maintenance for the Westphalia Street project.

Equipment Replacement Fund:

As of February 28, 2005, the Equipment Replacement Fund reported a fund balance of \$102,863, an increase of \$15,034 from the prior year. The total fund balance is undesignated/unreserved. A budget was not adopted for this fund.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets - At the end of the fiscal year, the Village had invested \$1,305,757, net of accumulated depreciation, in a broad range of capital assets (see table below). Accumulated depreciation was \$1,110,325 for the primary government. Depreciation charges for the fiscal year totaled \$88,799 for the primary government. Additional information related to capital assets is detailed in Note F of the Financial Statements. Net book value of capital assets at February 28, 2005, was as follows:

	<u>Governmental Activities</u>	<u>Business- type Activities</u>	<u>Total</u>
Land	\$ 220,778	\$ -	\$ 220,778
Construction in progress	4,036	-	4,036
Buildings and improvements, net	55,455	-	55,455
Machinery and equipment, net	79,832	-	79,832
Vehicles, net	6,516	-	6,516
Sewer system, net	-	273,451	273,451
Water system, net	-	264,067	264,067
Infrastructure, net	<u>145,919</u>	<u>-</u>	<u>145,919</u>
Capital assets, net	<u>\$ 512,536</u>	<u>\$ 537,518</u>	<u>\$ 1,050,054</u>

Long-term Debt - As of February 28, 2005, the Village had \$19,000 in debt outstanding. The final payment on the 1993 Water System Refunding Bonds is due November 1, 2005.

Outstanding Debt as of February 28, 2005:

	<u>March 1, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Feb. 28, 2005</u>
Business-type Activities				
1993 Refunding Bonds	<u>\$ 38,000</u>	<u>\$ -</u>	<u>\$ 19,000</u>	<u>\$ 19,000</u>

A more detailed discussion of the Village's long-term debt obligations is presented in Note G to the Financial Statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS

February 28, 2005

VILLAGE OF WESTPHALIA GOVERNMENT ECONOMIC OUTLOOK

The State of Michigan continues to have difficulty in balancing their budget. Any shortfalls in projected revenues could affect our revenue sharing funds that we receive. Further cuts in revenue sharing funds could affect the services that we provide to the citizens of the Village of Westphalia.

Other factors that the Village is aware of are:

- Property tax revenue does seem to be keeping pace with inflation.
- Investment earnings are at historically low levels due to low market interest rates.
- Health insurance premiums are rising much faster than the rate of inflation.
- Retirement costs are increasing due to poor stock market performance over the last several years.
- Utility costs are rising faster than the rate of inflation.

These and many other factors were considered in adopting the budget for the 2005-2006 fiscal year. The Village continues to look for ways to increase efficiencies and reduce the cost of doing business.

CONTACTING THE VILLAGE

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the Village's finances and to demonstrate the Village's accountability for the money it receives. If there are questions about this report, or a need for additional information, contact the Village offices at (989) 587-4434.

BASIC FINANCIAL STATEMENTS

Village of Westphalia

STATEMENT OF NET ASSETS

February 28, 2005

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets			
Cash and cash equivalents	\$ 265,386	\$ 389,249	\$ 654,635
Investments	91,746	129,998	221,744
Receivables	-	19,974	19,974
Due from other governmental units	23,995	-	23,995
Internal balances	(2,137)	2,137	-0-
Total current assets	378,990	541,358	920,348
Noncurrent assets			
Cash - restricted	-	28,586	28,586
Capital assets, net	512,536	537,518	1,050,054
Total noncurrent assets	512,536	566,104	1,078,640
TOTAL ASSETS	891,526	1,107,462	1,998,988
LIABILITIES			
Current liabilities			
Accounts payable	5,981	256	6,237
Accrued liabilities	5,235	325	5,560
Current portion of long-term debt	-	19,000	19,000
Total current liabilities	11,216	19,581	30,797
Noncurrent liabilities			
Payable from restricted cash - customer deposits payable	-	120	120
TOTAL LIABILITIES	11,216	19,701	30,917
NET ASSETS			
Invested in capital assets, net of related debt	512,536	518,518	1,031,054
Restricted for streets and highways	105,811	-	105,811
Unrestricted	261,963	569,243	831,206
TOTAL NET ASSETS	<u>\$ 880,310</u>	<u>\$ 1,087,761</u>	<u>\$ 1,968,071</u>

See accompanying notes to financial statements.

Village of Westphalia

STATEMENT OF ACTIVITIES

Year Ended February 28, 2005

Functions/Programs	Program Revenues		Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-type Activities
Governmental activities					
General government	\$ 205,458	\$ 114,905	\$ 2,133	\$ (88,420)	\$ -
Public safety	11,639	-	-	(11,639)	-
Public works	125,193	9,331	62,332	(53,530)	-
Health and welfare	6,236	1,408	-	(4,828)	-
Community and economic development	13,999	-	-	(13,999)	-
Recreation and cultural	14,693	8,700	800	(5,193)	-
Other	9,737	-	-	(9,737)	-
Total governmental activities	386,955	134,344	65,265	(187,346)	-0-
Business-type activities					
Sewer system	62,896	44,877	-	-0-	(18,019)
Water system	57,546	47,605	-	-0-	(9,941)
Total business-type activities	120,442	92,482	-0-	-0-	(27,960)
Total	\$ 507,397	\$ 226,826	\$ 65,265	(187,346)	(27,960)
General revenues					
Property taxes				166,498	-
State shared revenue				71,525	-
Investment earnings				6,908	5,160
Miscellaneous				6,734	-
Total general revenues				251,665	5,160
Change in net assets				64,319	(22,800)
Net assets, beginning of the year				815,991	1,109,561
Prior period adjustments				-	1,000
Net assets, end of the year				\$ 880,310	\$ 1,087,761
					\$ 1,968,071

See accompanying notes to financial statements.

Village of Westphalia

GOVERNMENTAL FUNDS BALANCE SHEET

February 28, 2005

	General	Major Street	Equipment Replacement
ASSETS			
Cash and cash equivalents	\$ 122,660	\$ 20,598	\$ 73,116
Investments	20,000	14,999	29,747
Due from other governmental units	12,606	7,898	-
Due from other funds	10,174	-	-
TOTAL ASSETS	\$ 165,440	\$ 43,495	\$ 102,863
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 5,981	\$ -	\$ -
Accrued liabilities	5,235	-	-
Due to other funds	7,207	3,887	-
TOTAL LIABILITIES	18,423	3,887	-0-
FUND BALANCES			
Unreserved			
Designated for future capital projects	143,433	-	-
Undesignated, reported in			
General fund	3,584	-	-
Special revenue funds	-	39,608	102,863
TOTAL FUND BALANCES	147,017	39,608	102,863
TOTAL LIABILITIES AND FUND BALANCES	\$ 165,440	\$ 43,495	\$ 102,863

See accompanying notes to financial statements.

Nonmajor Governmental Funds	Total Governmental Funds
\$ 49,012	\$ 265,386
27,000	91,746
3,491	23,995
-	10,174
<u>\$ 79,503</u>	<u>\$ 391,301</u>
\$ -	\$ 5,981
-	5,235
<u>1,217</u>	<u>12,311</u>
1,217	23,527
-	143,433
-	3,584
<u>78,286</u>	<u>220,757</u>
<u>78,286</u>	<u>367,774</u>
<u>\$ 79,503</u>	<u>\$ 391,301</u>

Village of Westphalia

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS

February 28, 2005

Total fund balance - governmental funds \$ 367,774

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported as assets in the governmental funds (See Note F).

The cost of capital assets is	\$ 625,976
Accumulated depreciation is	<u>(113,440)</u>

Capital assets, net	<u>512,536</u>
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Net assets of governmental activities	<u><u>\$ 880,310</u></u>
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See accompanying notes to financial statements.

Village of Westphalia

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS

Year Ended February 28, 2005

	General	Major Street	Equipment Replacement
REVENUES			
Taxes	\$ 166,498	\$ -	\$ -
Licenses and permits	300	-	-
Intergovernmental	73,659	42,168	-
Charges for services	116,012	9,331	-
Interest and rents	1,976	826	834
Other	5,801	-	-
TOTAL REVENUES	364,246	52,325	834
EXPENDITURES			
Current			
General government	214,496	-	-
Public safety	11,639	-	-
Public works	191	149,694	-
Health and welfare	6,236	-	-
Community and economic development	13,999	-	-
Recreation and cultural	2,912	-	-
Other	9,737	-	-
Capital outlay	99,416	-	800
TOTAL EXPENDITURES	358,626	149,694	800
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	5,620	(97,369)	34
OTHER FINANCING SOURCES (USES)			
Operating transfers in	-	-	15,000
Operating transfers out	(17,100)	-	-
TOTAL OTHER FINANCING SOURCES (USES)	(17,100)	-0-	15,000
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	(11,480)	(97,369)	15,034
Fund balances, beginning of year	158,497	140,165	87,829
Prior period adjustments	-	(3,188)	-
Fund balances, end of year	\$ 147,017	\$ 39,608	\$ 102,863

See accompanying notes to financial statements.

Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ 166,498
-	300
20,964	136,791
8,700	134,043
3,272	6,908
933	6,734
33,869	451,274
-	214,496
-	11,639
11,667	161,552
-	6,236
-	13,999
10,331	13,243
-	9,737
-	100,216
21,998	531,118
11,871	(79,844)
2,100	17,100
-	(17,100)
2,100	-0-
13,971	(79,844)
67,068	453,559
(2,753)	(5,941)
<u>\$ 78,286</u>	<u>\$ 367,774</u>

Village of Westphalia

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended February 28, 2005

Net change in fund balances - total governmental funds \$ (79,844)

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense (See Note F). In the current period, these amounts are:

Capital outlay	\$ 158,428	
Depreciation expense	<u>(14,265)</u>	
Excess of capital outlay over depreciation expense		<u>144,163</u>
Change in net assets of governmental activities		<u><u>\$ 64,319</u></u>

See accompanying notes to financial statements.

Village of Westphalia

STATEMENT OF NET ASSETS - PROPRIETARY FUNDS

February 28, 2005

	Business-type Activities		
	Sewer System	Water System	Total
ASSETS			
Current assets			
Cash and cash equivalents	\$ 244,733	\$ 144,516	\$ 389,249
Investments	114,999	14,999	129,998
Accounts receivable	11,259	8,715	19,974
Due from other funds	11,463	7,207	18,670
Total current assets	382,454	175,437	557,891
Noncurrent assets			
Cash - restricted	78	28,508	28,586
Capital assets, net	273,451	264,067	537,518
Total noncurrent assets	273,529	292,575	566,104
TOTAL ASSETS	655,983	468,012	1,123,995
LIABILITIES			
Current liabilities			
Accounts payable	104	152	256
Due to other funds	4,378	12,155	16,533
Accrued interest payable	-	325	325
Current portion of long-term debt	-	19,000	19,000
Total current liabilities	4,482	31,632	36,114
Noncurrent liabilities			
Payable from restricted cash - customer deposits payable	78	42	120
TOTAL LIABILITIES	4,560	31,674	36,234
NET ASSETS			
Invested in capital assets, net of related debt	273,451	245,067	518,518
Unrestricted	377,972	191,271	569,243
TOTAL NET ASSETS	\$ 651,423	\$ 436,338	\$ 1,087,761

See accompanying notes to financial statements.

Village of Westphalia

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUNDS

Year Ended February 28, 2005

	Business-type Activities		
	Sewer System	Water System	Total
OPERATING REVENUES			
Charges for services	\$ 44,877	\$ 47,605	\$ 92,482
OPERATING EXPENSES			
Labor charges	9,788	12,615	22,403
Fringe benefits	537	692	1,229
Contractual services	630	1,902	2,532
Supplies	7,074	6,304	13,378
Utilities	3,046	3,185	6,231
Equipment rental charges	568	-	568
Other	11,453	15,948	27,401
Depreciation	29,800	15,283	45,083
TOTAL OPERATING EXPENSES	62,896	55,929	118,825
OPERATING (LOSS)	(18,019)	(8,324)	(26,343)
NONOPERATING REVENUES			
Interest revenue	4,247	913	5,160
Interest expense	-	(1,617)	(1,617)
TOTAL NONOPERATING REVENUES	4,247	(704)	3,543
CHANGE IN NET ASSETS	(13,772)	(9,028)	(22,800)
Net assets, beginning of year	665,195	444,366	1,109,561
Prior period adjustment	-	1,000	1,000
Net assets, end of year	\$ 651,423	\$ 436,338	\$ 1,087,761

See accompanying notes to financial statements.

Village of Westphalia

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

Year Ended February 28, 2005

	Business-type Activities		
	Sewer System	Water System	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from customers	\$ 44,877	\$ 50,766	\$ 95,643
Cash paid for employees	(10,325)	(13,628)	(23,953)
Cash paid to suppliers	(22,227)	(27,059)	(49,286)
NET CASH PROVIDED BY OPERATING ACTIVITIES	12,325	10,079	22,404
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of investments	(114,999)	(14,999)	(129,998)
Maturity of investments	125,000	50,000	175,000
Interest revenue	4,247	913	5,160
NET CASH PROVIDED BY INVESTING ACTIVITIES	14,248	35,914	50,162
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Payments of borrowing	-	(19,000)	(19,000)
Interest expense	-	(1,617)	(1,617)
NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	-0-	(20,617)	(20,617)
NET INCREASE IN CASH AND CASH EQUIVALENTS	26,573	25,376	51,949
Restated cash and cash equivalents, beginning of year	178,238	107,648	285,886
Cash and cash equivalents, end of year	<u>\$ 204,811</u>	<u>\$ 133,024</u>	<u>\$ 337,835</u>
Reconciliation of operating (loss) to net cash provided by operating activities			
Operating (loss)	\$ (18,019)	\$ (8,324)	\$ (26,343)
Adjustments to reconcile operating (loss) to net cash provided by operating activities			
Depreciation	29,800	15,283	45,083
Decrease in accounts receivable	-	3,161	3,161
Increase (decrease) in accounts payable	8	(412)	(404)
(Decrease) in other accrued liabilities	-	(321)	(321)
Increase in due to other funds	536	692	1,228
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 12,325</u>	<u>\$ 10,079</u>	<u>\$ 22,404</u>

See accompanying notes to financial statements.

Village of Westphalia

NOTES TO FINANCIAL STATEMENTS

February 28, 2005

NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Village of Westphalia is located in Clinton County, Michigan and has a population of approximately 880. The Village of Westphalia operates with a Village President/Council form of government and provides services to its residents in many areas including general government, highways and streets, human services, and utilities services.

The Village Council is made up of the Village President and a maximum of six (6) trustees who are selected at large for overlapping four year terms.

The financial statements of the Village have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to Village governments. The Governmental Accounting Standards Board is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Village's more significant accounting policies are described below.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement 14, *The Financial Reporting Entity*, and *Statement on Michigan Governmental Accounting and Auditing No. 5*, these financial statements present the financial activities of the Village of Westphalia. The Village has no activities that would be classified as component units.

The inclusion of the activities of various agencies is based on the manifestation of oversight criteria, relying on such guidelines as the selection of the governing authority, the designation of management, the ability to exert significant influence on operations, and the accountability for fiscal matters. The accountability for fiscal matters considers the possession of the budgetary authority, the responsibility for surplus or deficit, the controlling of fiscal management, and the revenue characteristics, whether a levy or a charge. Consideration is also given to the scope of public service. The scope of public service considers whether the activity is for the benefit of the reporting entity and/or its residents and is within the geographic boundaries of the reporting entity and generally available to its citizens.

Based upon the application of these criteria, the basic financial statements of the Village of Westphalia contain all the funds controlled by the Village Council.

2. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the government-wide statements) present information for the primary government as a whole. All activities of the primary government are included. For the most part, interfund activity has been eliminated in the preparation of these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The statement of activities presents the direct functional expenses of the primary government and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State revenue sharing payments and other general revenues and shows how governmental functions are either self-financing or supported by general revenues.

NOTES TO FINANCIAL STATEMENTS

February 28, 2005

NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

FUND FINANCIAL STATEMENTS

The fund financial statements present the Village's individual major funds and aggregated nonmajor funds. Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The major funds of the Village are:

- a. The General Fund is the Village's primary operating fund. It accounts for all financial resources of the general government except for those that are required to be accounted for in another fund.
- b. The Major Street Fund is used to account for the financial resources that are used for repairs and maintenance of the Village's major streets.
- c. The Equipment Replacement Fund is used to account for the financial resources that are used for repairs and replacement of the Village's equipment.
- d. The Sewer System Fund accounts for resources generated by providing sewer services to residents of the Village; the costs (expenses, including depreciation) are financed or recovered primarily through user charges.
- e. The Water System Fund accounts for resources generated by providing water services to residents of the Village; the costs (expenses, including depreciation) are financed or recovered primarily through user charges.

3. Measurement Focus

The government-wide and proprietary fund financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the government-wide statements are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

4. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

All governmental funds are accounted for using the modified accrual basis of accounting. Under this method, revenues are recognized when they become susceptible to accrual (when they become both "measurable" and "available to finance expenditures of the current period"). The length of time used to define "available" for purposes of revenue recognition in the governmental fund financial statements is 60 days. Revenues that are considered measurable but not available are recorded as a receivable and deferred revenue. Significant revenues susceptible to accrual are special assessments and certain intergovernmental revenues. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for interest on long-term debt which is recorded when due.

All proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

NOTES TO FINANCIAL STATEMENTS

February 28, 2005

NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

4. Basis of Accounting - continued

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Enterprise Funds are charges to customers for sales and services. Operating expenses for enterprise funds include the costs of sales and services, administrative expenses, and other costs of running the activity. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. If/when both restricted and unrestricted resources are available for use, it is the Village's policy to use restricted resources first, then unrestricted resources as they are needed.

5. Budgets and Budgetary Accounting

The General and Special Revenue Funds' budgets shown as required supplementary information to the financial statements were prepared on a basis consistent with the modified accrual basis used to reflect actual results. The Village employs the following procedures in establishing the budgetary data reflected in the financial statements.

- a. During the month of March, the Village Budget Committee submits their proposed operating budgets for the fiscal year commencing the previous March 1. The operating budget includes proposed expenditures and resources to finance them.
- b. A Public Hearing is conducted to obtain taxpayers' comments.
- c. During the month of March, the budget is legally adopted with passage by Council vote.
- d. The budget is legally adopted at the activity level for the General Fund and at the fund level in the Special Revenue Funds.
- e. After the budget is adopted all transfers of budgeted amounts between accounts within a fund or activity or any revisions that alter the total expenditures of a fund or activity must be approved by the Village Council.
- f. The Village does not employ encumbrance accounting as an extension of formal budgetary integration in the governmental funds. Appropriations unused at February 28, 2005 are not carried forward to the following fiscal year.
- g. Budgeted amounts are reported as originally adopted or as amended by the Village Council during the year. Individual amendments were appropriately approved by the Village Council in accordance with required procedures.

6. Cash, Cash Equivalents, and Investments

Cash equivalents are temporary investments that consist of various money market checking accounts. The cash and cash equivalents are recorded at market value.

Investments include certificates of deposit with an original maturity of greater than 90 days from the date of purchase. All investments are stated at market value in accordance with GASB 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. All certificates of deposit held by the Village at year-end are classified as investments.

NOTES TO FINANCIAL STATEMENTS

February 28, 2005

NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

7. Restricted Cash and Investments

A portion of the cash and cash equivalents of the Sewer System and Water System Funds are classified as restricted cash and investments because their use is limited. The Sewer System Fund's restrictions are for the amount of customer deposits held at February 28, 2005. The Water System Fund's restrictions are due to bond resolution requirements to maintain certain balances in separate accounts for debt service and general purpose reserves, and also for the amount of customer deposits held at February 28, 2005.

8. Property Tax

The Village of Westphalia bills and collects its own property taxes. The Village's property tax revenue recognition policy and related tax calendar disclosures are highlighted in the following paragraph.

Property taxes are levied by the Village of Westphalia on July 1 and are payable without penalty through September 15. All real property taxes not paid to the Village by September 14 are turned over to the Clinton County Treasurer for collection. The Clinton County Treasurer remits payments to all taxing districts on any delinquent real property taxes. Delinquent personal property taxes are retained by the Village for subsequent collection. Collections and remittances of all taxes are accounted for in the General Fund. Village property tax revenues are recognized as revenues in the fiscal year levied.

The Village is permitted to levy taxes up to 10.9795 mills (approximately \$10.98 per \$1,000 of assessed valuation) for general governmental services. For the year ended February 28, 2005, the Village levied 8 mills for general governmental services. The total taxable value for the 2004 levy for property within the Village was \$20,167,719.

9. Interfund Transactions

During the course of normal operations, the Village has numerous transactions between funds, including expenditures and transfers of resources to provide services and construct assets. The accompanying financial statements generally reflect such transactions as operating transfers.

The General Fund records charges for equipment rental and administrative costs to various Village departments and funds as revenue. All Village funds record these payments as operating expenditures/expenses.

10. Compensated Absences

Accumulated vacation and sick pay amounts of the Department of Public Works (DPW) employees are vested (i.e., are payable at termination). As of February 28, 2005, DPW employees had no material accumulated unused vacation and sick amounts that needed to be recorded in the government-wide financial statements.

Accumulated vacation and sick pay amounts for all other Village employees do not vest (i.e., are not payable at termination) and therefore have not been recorded in the government-wide financial statements.

11. Capital Assets

Capital assets include land, buildings, equipment, and vehicles and are recorded (net of accumulated depreciation, if applicable) in the government-wide financial statements under the governmental activities column. Capital assets are those with an estimated useful life of more than one year. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the government-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

NOTES TO FINANCIAL STATEMENTS

February 28, 2005

NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

11. Capital Assets - continued

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Infrastructure - streets	30 years
Buildings and improvements	50 years
Vehicles	8 years
Machinery and equipment	10-15 years
Water and sewer systems	40 years

As a result of the implementation of GASB 34, the Village is, for the first time, accounting for infrastructure assets on its financial statements. The Village of Westphalia has capitalized all applicable infrastructure that met the reporting criteria, as required by GASB Statement No. 34, and has reported the infrastructure in the Statement of Net Assets.

12. Long-term Liabilities

Long-term debt and other long-term obligations are recognized as a liability in the government-wide financial statements and proprietary fund types when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as long-term.

Long-term debt is recognized as a liability of a governmental fund when due. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund.

13. Comparative Data

Comparative data for the prior year has not been presented in all funds in the accompanying financial statements since their inclusion would make the financial statements unduly complex and difficult to read.

14. Accounting Change

As of March 1, 2004, the Village implemented the provisions of Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments (Statement) along with all related statements and interpretations. Some of the significant changes in the Statement include the following:

- A Management Discussion and Analysis (MD&A) section providing an analysis of the Village's overall financial position and results of operations has been included.
- Government-wide financial statements (statement of net assets and statement of activities) prepared using full accrual accounting for all of the Village's activities have been provided. Reconciliations are presented between the governmental fund level (modified accrual) and government-wide (full accrual) statements since their measurement focus is not the same.
- Capital assets reported on the statement of net assets include assets in the amount of \$467,548, which were previously reported in the General Fixed Assets Account Group. The government-wide statement of activities reflects depreciation expenses on the Village's capital assets.
- The fund financial statements focus on major funds rather than fund types.

NOTES TO FINANCIAL STATEMENTS

February 28, 2005

NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**14. Accounting Change - continued**

This implementation has also required certain disclosures to be made in the notes to the financial statements concurrent with the implementation of Statement No. 34 based on GASB Statement No. 38. Certain note disclosures have been added and/or amended, including descriptions of activities of major funds and interfund balances and transactions, and various other disclosures.

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS

In accordance with Michigan Compiled Laws, the Village is authorized to invest in the following investment vehicles:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of the State or the United States, but only if the bank, savings and loan association, savings bank, or credit union is eligible to be a depository of surplus funds belong to the State under Section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of the Michigan Compiled Laws.
3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or federal agency obligations repurchase agreements.
5. Bankers' acceptances of United States banks.
6. Mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State surplus funds, securities, issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association or Government National Mortgage Association.

As of February 28, 2005, the carrying amounts and bank balances for each type of bank account are as follows:

<u>Account Type</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
PRIMARY GOVERNMENT		
Checking accounts	\$ 549,713	\$ 543,010
Savings accounts	108,508	104,002
Certificates of Deposit	<u>246,744</u>	<u>247,000</u>
Total	<u>\$ 904,965</u>	<u>\$ 894,012</u>

Village of Westphalia

NOTES TO FINANCIAL STATEMENTS

February 28, 2005

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED

Deposits of the Village are at federally insured banks located in the State of Michigan with all accounts maintained in the name of the Village. As of February 28, 2005, the Village's accounts were insured by the FDIC for \$328,995 the amount of \$565,017 was uninsured and uncollateralized.

Due to significantly higher cash flow at certain periods during the year, the amount the Village held as cash and cash equivalents increased significantly. As a result, the amount of uninsured and uncollateralized cash and cash equivalents were substantially higher at these peak periods than at year-end.

The cash and investments referred to above have been reported in either the cash or investments captions on the basic financial statements, based upon criteria disclosed in Note A. The following summarizes the categorization of these amounts as of February 28, 2005:

Cash and cash equivalents	\$ 654,635
Cash and cash equivalents - restricted	28,586
Investments	<u>221,744</u>
	<u>\$ 904,965</u>

NOTE C: CASH, CASH EQUIVALENTS, AND INVESTMENTS - RESTRICTED

The following summarizes the restricted cash and cash equivalents as of February 28, 2005:

	<u>Customer Deposits</u>	<u>Debt Retirement</u>	<u>Total</u>
Cash and cash equivalents			
Enterprise Funds	<u>\$ 120</u>	<u>\$ 28,466</u>	<u>\$ 28,586</u>

NOTE D: INTERFUND RECEIVABLES AND PAYABLES

The following schedule details primary government interfund receivables and payables at February 28, 2005:

Due to General Fund from:	
Major Street Fund	\$ 3,887
Water Fund	692
Sewer Fund	4,378
Nonmajor governmental funds	<u>1,217</u>
	10,174
Due to Sewer Fund from:	
Water Fund	11,463
Due to Water Fund from:	
General Fund	<u>7,207</u>
	<u>\$ 28,844</u>

Amounts appearing as interfund payables and receivables arise from two types of transactions. One type of transaction is where a fund will pay for a good or service that at least a portion of the benefit belongs to another fund. The second type of transaction is where one fund provides a good or service to another fund. Balances at the end of the year are for transfers that have not cleared as of the balance sheet date

Village of Westphalia

NOTES TO FINANCIAL STATEMENTS

February 28, 2005

NOTE E: INTERFUND TRANSFERS

Permanent reallocation of resources between funds of the reporting entity is classified as interfund transfers. For the purpose of the statement of activities, all interfund transfers between individual governmental funds and business-type funds have been eliminated.

Transfers to Equipment Replacement Fund from:	
General Fund	<u>\$ 15,000</u>

Transfers to nonmajor governmental funds from:	
General Fund	<u>\$ 2,100</u>

NOTE F: CAPITAL ASSETS

Capital asset activity for the year ended February 28, 2005 was as follows:

Governmental activities

	Restated Balance Mar. 1, 2004	Additions	Deletions	Balance Feb. 28, 2005
Capital assets not being depreciated:				
Land	\$ 214,778	\$ 6,000	\$ -	\$ 220,778
Construction in progress	<u>-</u>	<u>4,036</u>	<u>-</u>	<u>4,036</u>
Total capital assets not being depreciated	214,778	10,036	-0-	224,814
Capital assets being depreciated:				
Infrastructure - streets	-	148,392	-	148,392
Buildings and improvements	70,982	-	-	70,982
Vehicles	63,508	-	-	63,508
Machinery and equipment	<u>118,280</u>	<u>-</u>	<u>-</u>	<u>118,280</u>
Total at historical cost	252,770	148,392	-0-	401,162
Less accumulated depreciation for:				
Infrastructure - streets	(-)	(2,473)	-	(2,473)
Buildings and improvements	(14,108)	(1,419)	-	(15,527)
Vehicles	(54,385)	(2,607)	-	(56,992)
Machinery and equipment	<u>(30,682)</u>	<u>(7,766)</u>	<u>-</u>	<u>(38,448)</u>
Total accumulated depreciation	<u>(99,175)</u>	<u>(14,265)</u>	<u>-0-</u>	<u>(113,440)</u>
Net capital assets being depreciated	<u>153,595</u>	<u>134,127</u>	<u>-0-</u>	<u>287,722</u>
Capital assets, net	<u>\$ 368,373</u>	<u>\$ 144,163</u>	<u>\$ -0-</u>	<u>\$ 512,536</u>

Depreciation expense was charged to the following governmental activities:

General government	\$ 998
Public works	11,817
Recreation and cultural	<u>1,450</u>
Total depreciation expense	<u>\$ 14,265</u>

Village of Westphalia
NOTES TO FINANCIAL STATEMENTS
February 28, 2005

NOTE F: CAPITAL ASSETS - CONTINUED

Business-type activities

	<u>Balance</u> <u>Mar 1, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>Feb. 28, 2005</u>
Capital assets being depreciated:				
Sewer system	\$ 1,192,006	\$ -	\$ -	\$ 1,192,006
Water system	<u>622,107</u>	<u>-</u>	<u>-</u>	<u>622,107</u>
Total at historical cost	1,814,113	-0-	-0-	1,814,113
Less accumulated depreciation for:				
Sewer system	\$(888,755)	\$(29,800)	\$ -	\$(918,555)
Water system	<u>(342,757)</u>	<u>(15,283)</u>	<u>-</u>	<u>(358,040)</u>
Total accumulated depreciation	<u>(1,231,512)</u>	<u>(45,083)</u>	<u>-0-</u>	<u>(1,276,595)</u>
Net capital assets - business-type activities	<u>\$ 582,601</u>	<u>\$(45,083)</u>	<u>\$ -0-</u>	<u>\$ 537,518</u>

NOTE G: LONG-TERM DEBT

The following is a summary of changes in long-term debt (including current portion) of the Village for the year ended February 28, 2005:

	<u>Balance</u> <u>Mar. 1, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>Feb. 28, 2005</u>	<u>Amounts</u> <u>Due Within</u> <u>One Year</u>
PRIMARY GOVERNMENT					
Business-type activities					
Water System Fund					
1993 Refunding Bonds	<u>\$ 38,000</u>	<u>\$ -</u>	<u>\$ 19,000</u>	<u>\$ 19,000</u>	<u>\$ 19,000</u>

In 1993 the Village entered into an agreement with the Michigan Municipal Bond Authority to refund the 1986 Water Revenue Bonds and replace them with the 1993 Refunding Bonds. The refunding of the bonds did not change the Village's principal amounts due or the timing or duration of the payments but provided a better interest rate on the outstanding bonds. This resulted in a reduction in future interest payments by \$15,563.

Significant details regarding outstanding long-term debt (including current portion) are presented below:

Water Supply and Distribution System Revenue Refunding Bonds

\$149,000 Water Refunding Bonds dated December 20, 1993, due in an annual installment of \$19,000 through November 1, 2005, with interest of 5.10 percent, payable semi-annually.

\$ 19,000

The annual requirements to pay the debt principal and interest outstanding for the bonds and contracts are as follows:

<u>Year Ending</u> <u>February 28,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	<u>\$ 19,000</u>	<u>\$ 969</u>	<u>\$ 19,969</u>

Village of Westphalia

NOTES TO FINANCIAL STATEMENTS

February 28, 2005

NOTE H: RETIREMENT PLAN

Plan Description

The Village participates in the Michigan Municipal Employees Retirement System, an agent multiple-employer defined benefit pension plan that covers all eligible full-time employees of the Village. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, Michigan 48917.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by the Village Council. The plan requires no contribution from the employees.

Annual Pension Cost

For year ended February 28, 2005, the Village's annual pension cost of \$6,523 for the plan was less than the Village's actuarially estimated annual contribution of \$6,804. The annual estimated contribution was determined as part of an actuarial valuation at December 31, 2003, using the entry actual age cost method. Actual required contributions are based on actual reported monthly payroll. Significant actuarial assumptions used include (a) a 8.00 percent investment rate of return (b) projected salary increases of 4.5 percent per year compounded annually, attributable to inflation (c) additional salary increases ranging from 0% to 4.2% per year depending on age, seniority and merit, and (d) assumption benefits will not increase after retirement. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four (4) year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining unfunded actuarial liability is being amortized over thirty (30) years.

Three (3) year trend information

	Year Ended December 31,		
	<u>2001</u>	<u>2002</u>	<u>2003</u>
Actuarial value of assets	\$ 175,293	\$ 189,582	\$ 213,080
Actuarial accrued liability (AAL) (entry age)	205,555	232,360	255,620
Unfunded AAL	30,262	42,778	42,540
Funded ratio	85.3 %	81.6 %	83.4 %
Covered payroll	\$ 69,034	74,351	78,877
UAAL as a percentage of covered payroll	43.8 %	57.5 %	53.9 %

	Year Ended February 28/29,		
	<u>2003</u>	<u>2004</u>	<u>2005</u>
Annual pension cost	\$ 6,414	\$ 6,314	\$ 6,523
Percentage of APC contributed	100 %	100 %	100 %
Net pension obligation	-	-	-

NOTES TO FINANCIAL STATEMENTS

February 28, 2005

NOTE I: RISK MANAGEMENT

The Village is exposed to various risks of loss including accidental death, dismemberment, disability, employer's liability, errors and omissions, and workers' compensation for which the Village carries commercial insurance.

The Village also participates in a pool, the Michigan Township Participating Plan, with other municipalities for property and casualty losses. The pool is organized under Public Act 138 of 1982, as amended. The Village has no liability for additional assessments based on the claims filed against the pool nor do they have any right to dividends.

NOTE J: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Michigan Public Act 621 of 1978, Sections 18 and 19, as amended, provides that a local governmental unit not incur expenditures in excess of the amounts appropriated.

In the required supplementary information to the financial statements, the Village's budgeted expenditures in the General and major Special Revenue Funds have been shown at the functional classification level. The approved budgets of the Village have been adopted at the activity level for the General Fund and the fund level for the Special Revenue Funds.

During the year ended February 28, 2005, the Village incurred expenditures in the General Fund and one (1) Special Revenue Fund in excess of the amounts appropriated as follows:

	<u>Amounts Appropriated</u>	<u>Amounts Expended</u>	<u>Variance</u>
General Fund			
General government			
Legislative	\$ 5,850	\$ 7,007	\$ 1,157
President	7,000	7,782	782
Clerk	14,000	14,257	257
Treasurer	3,650	3,823	173
Community and economic development			
Planning commission	4,650	13,999	9,349
Recreation and cultural			
Parks and recreation	-	2,912	2,912
Other			
Miscellaneous	500	3,121	2,621
Capital outlay	34,000	99,416	65,416
Special Revenue Fund			
Equipment Replacement	-	800	800

Several of the variances noted in the General Fund were caused by adjustments proposed and posted during the audit process.

Village of Westphalia

NOTES TO FINANCIAL STATEMENTS

February 28, 2005

NOTE K: FUND EQUITY RESERVES AND DESIGNATIONS

Reserved fund balance and net assets are used to earmark a portion of fund equity to indicate that it is not appropriate for expenditures/expenses or has been legally segregated for a specific future use. Designated fund balance indicates that portion of the fund balance which the Village has set aside for specific purposes. These amounts have been recorded at the fund level for governmental funds only to indicate management's plans for these funds.

As of February 28, 2005, a portion of the Water System Fund net assets had been reserved in the amount of \$1,900 for debt service.

As of February 28, 2005, a portion of the General Fund fund balance had been designated in the amount of \$143,433 for future capital projects.

NOTE L: PRIOR PERIOD ADJUSTMENTS

The following prior period adjustments were made during the year, which were the result of corrections of accounting errors. These adjustments were reported as changes to beginning fund balance and net assets. The effect on operations and other affected balances for the current and prior period are as follows:

	February 28/29,		
	<u>2005</u>	<u>2004</u>	<u>Description</u>
PRIMARY GOVERNMENT			
Major Street Fund			
Cash	\$ -	\$(3,188)	Correct overstatement
Fund balance - beginning	(3,188)	-	of cash
Nonmajor governmental funds			
Cash	-	(2,753)	Correct overstatement
Fund balance - beginning	(2,753)	-	of cash
Business-type Activities			
Water			
Accumulated depreciation	-	(1,000)	Correct overstatement
Change in net assets	-	1,000	accumulated depreciation
Net assets - beginning	1,000	-	

REQUIRED SUPPLEMENTARY INFORMATION

Village of Westphalia

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended February 28, 2005

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Taxes	\$ 160,000	\$ 160,000	\$ 166,498	\$ 6,498
Licenses and permits	1,000	1,000	300	(700)
Intergovernmental - state	70,000	70,000	73,659	3,659
Charges for services	59,000	59,000	116,012	57,012
Interest and rents	2,000	2,000	1,976	(24)
Other	2,000	2,000	5,801	3,801
TOTAL REVENUES	294,000	294,000	364,246	70,246
EXPENDITURES				
Current				
General government				
Legislative	5,100	5,850	7,007	(1,157)
President	7,000	7,000	7,782	(782)
Clerk	14,000	14,000	14,257	(257)
Treasurer	3,550	3,650	3,823	(173)
Assessor	275	275	-	275
Elections	700	1,100	690	410
Hall and grounds	204,550	204,550	180,937	23,613
Total general government	235,175	236,425	214,496	21,929
Public safety				
Police department	13,000	13,000	11,639	1,361
Fire department	13,200	13,200	-	13,200
Total public safety	26,200	26,200	11,639	14,561
Public Works				
Refuse collection	200	200	191	9
Health and welfare				
Ambulance	7,000	7,000	6,236	764
Community and economic development				
Planning commission	4,650	4,650	13,999	(9,349)
Zoning commission	500	500	-	500
Total community and economic development	5,150	5,150	13,999	(8,849)
Recreation and cultural				
Parks and recreation	-	-	2,912	(2,912)

Village of Westphalia

General Fund

BUDGETARY COMPARISON SCHEDULE - CONTINUED

Year Ended February 28, 2005

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
EXPENDITURES - CONTINUED				
Other				
Audit fees	\$ 6,000	\$ 6,000	\$ 5,200	\$ 800
Legal fees	2,500	2,500	1,416	1,084
Miscellaneous	500	500	3,121	(2,621)
Total other	9,000	9,000	9,737	(737)
Capital outlay	34,000	34,000	99,416	(65,416)
TOTAL EXPENDITURES	316,225	317,475	358,626	(41,151)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(22,225)	(23,475)	5,620	29,095
OTHER FINANCING USES				
Operating transfers out	(17,500)	(17,500)	(17,100)	400
EXCESS OF REVENUES (UNDER) EXPENDITURES AND OTHER FINANCING USES	(39,725)	(40,975)	(11,480)	29,495
Fund balance, beginning of year	158,497	158,497	158,497	-0-
Fund balance, end of year	<u>\$ 118,772</u>	<u>\$ 117,522</u>	<u>\$ 147,017</u>	<u>\$ 29,495</u>

Village of Westphalia

Major Street Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended February 28, 2005

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Intergovernmental - State	\$ 40,000	\$ 40,000	\$ 42,168	\$ 2,168
Charges for services	-	-	9,331	9,331
Interest	1,000	1,000	826	(174)
TOTAL REVENUES	41,000	41,000	52,325	11,325
EXPENDITURES				
Current				
Public works				
Administrative	21,850	21,850	1,897	19,953
Construction	80,000	80,000	73,208	6,792
Street maintenance	22,400	69,400	70,394	(994)
Traffic service maintenance	1,700	4,200	4,195	5
TOTAL EXPENDITURES	125,950	175,450	149,694	25,756
EXCESS OF REVENUES (UNDER) EXPENDITURES	(84,950)	(134,450)	(97,369)	37,081
Fund balance, beginning of year	140,165	140,165	140,165	-0-
Prior period adjustment	-	-	(3,188)	(3,188)
Fund balance, end of year	\$ 55,215	\$ 5,715	\$ 39,608	\$ 33,893

Village of Westphalia
Equipment Replacement Fund
BUDGETARY COMPARISON SCHEDULE
Year Ended February 28, 2005

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Interest	\$ -	\$ -	\$ 834	\$ 834
EXPENDITURES				
Capital outlay	-	-	800	(800)
EXCESS OF REVENUES OVER EXPENDITURES	-0-	-0-	34	34
OTHER FINANCING SOURCES				
Operating transfer in	-	-	15,000	15,000
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES	-0-	-0-	15,034	15,034
Fund balance, beginning of year	87,829	87,829	87,829	-0-
Fund balance, end of year	<u>\$ 87,829</u>	<u>\$ 87,829</u>	<u>\$ 102,863</u>	<u>\$ 15,034</u>

OTHER SUPPLEMENTARY INFORMATION

Village of Westphalia
Nonmajor Governmental Funds
COMBINING BALANCE SHEET
February 28, 2005

	Special Revenue		Total Nonmajor Governmental Funds
	Local Street	Parks and Recreation	
ASSETS			
Cash and cash equivalents	\$ 36,929	\$ 12,083	\$ 49,012
Investments	27,000	-	27,000
Due from other governmental units - state	3,491	-	3,491
TOTAL ASSETS	<u>\$ 67,420</u>	<u>\$ 12,083</u>	<u>\$ 79,503</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Due to other funds	\$ 1,217	\$ -	\$ 1,217
FUND BALANCES			
Unreserved			
Undesignated, reported in Special revenue funds	<u>66,203</u>	<u>12,083</u>	<u>78,286</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 67,420</u>	<u>\$ 12,083</u>	<u>\$ 79,503</u>

Village of Westphalia

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES

Year Ended February 28, 2005

	Special Revenue		Total Nonmajor Governmental Funds
	Local Street	Parks and Recreation	
REVENUES			
Intergovernmental	\$ 20,164	\$ 800	\$ 20,964
Charges for services	-	8,700	8,700
Interest and rents	557	2,715	3,272
Other	-	933	933
TOTAL REVENUES	20,721	13,148	33,869
EXPENDITURES			
Current			
Public works			
Highways and streets	11,667	-	11,667
Recreation and cultural			
Parks and recreation	-	10,331	10,331
TOTAL EXPENDITURES	11,667	10,331	21,998
EXCESS OF REVENUES OVER EXPENDITURES	9,054	2,817	11,871
OTHER FINANCING SOURCES			
Operating transfers in	-	2,100	2,100
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES	9,054	4,917	13,971
Fund balances, beginning of year	57,149	9,919	67,068
Prior period adjustment	-	(2,753)	(2,753)
Fund balances, end of year	\$ 66,203	\$ 12,083	\$ 78,286

Principals

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MANAGEMENT LETTER

To the Honorable President and
Members of the Village Council
Village of Westphalia
Westphalia, Michigan

Dear Ladies/Gentlemen:

As you know, we have recently completed our audit of the records of the Village of Westphalia, Michigan for the year ended February 28, 2005. In connection with the audit, we feel that certain changes in your accounting procedures would be helpful in improving management's control and the operational efficiency of the accounting functions. These suggestions are a result of our evaluation of the internal control structure and our discussions with management.

1. The Village should ensure the accuracy of bank reconciliations.

During the course of our audit, we noted multiple instances of deposits in transit appearing on the bank reconciliation in error. These items appear to have been outstanding for some time, never having been adjusted in the Village's accounting software to indicate that the items had cleared the bank. Appropriate adjusting entries have been made in preparing the annual financial statements.

We suggest the Village review and, if necessary, revise the accounting procedures related to cash receipting and reconciling of bank accounts. Reconciling items should be investigated and appropriate adjustments made in a timely manner.

2. Budgets should be adopted for all funds and monitored and amended when necessary.

During the course of our audit, it was noted that the Equipment Replacement Fund did not have a budget adopted for 2005. We also noted expenditures in excess of amounts appropriated in the General Fund. Several of the variances noted in the General Fund were caused by adjustments proposed and posted during the audit process. Similar issues were noted and reported in our audit comments in the prior year.

The Michigan Public Act 621 of 1978, as amended, provides that the Village shall not incur expenditures in excess of the amounts appropriated. The Village is also required to adopt budgets for the General and all Special Revenue Funds.

We suggest the Village adopt budgets for all applicable funds and monitor expenditures against the adopted budget on a periodic basis, preferably monthly. Appropriate budget amendments should be made as needed.

These conditions were considered in determining the nature, timing, and extent of the audit tests to be applied in our audit of the financial statements, and this report does not affect our report on the financial statements, dated June 7, 2005.

This report is intended solely for the information of management and the President and Members of the Village Council of the Village of Westphalia, and is not intended to be and should not be used by anyone other than these specified parties.

We wish to express our appreciation for the courtesy and cooperation extended to us during our audit. We are available to discuss any or all of these suggestions with you, and to provide assistance in the implementation of improvements.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

June 7, 2005